

URGENT BUSINESS AND SUPPLEMENTARY INFORMATION

Accounts, Audit and Risk Committee

24 January 2018

Agenda Item Number	Page	Title	Officer Responsible	Reason Not Included with Original Agenda
10.	(Pages 1 - 6)	Statement of Accounts and External Audit Update	Executive Director – Finance and Governance	Report being reviewed and finalised at time of agenda publication

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Cherwell District Council

Accounts Audit and Risk Committee

24 January 2018

Statement of Accounts 2016/17 and External Audit Update
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Report of the Executive Director – Finance and Governance

This report is public

Purpose of report

The purpose of this report is to provide a progress update on the Statement of Accounts 2016/17 and external audit of the Accounts.

1.0 Recommendations

- 1.1 The Accounts, Audit and Risk Committee is recommended to note progress on finalising the Statement of Accounts for 2016/17 and on the external audit of the Statement of Accounts.

2.0 Introduction

- 2.1 Members will recall that in undertaking their audit work on the Accounts the External Auditor had raised queries regarding the valuation and accounting treatment of a number of the Councils assets. This had been triggered because of a significant change in a number of the asset values.
- 2.2 Members will also recall the decision taken in the year to change the Councils Valuer. Previously valuations were undertaken internally and the change was made to ensure that all valuations are accurate and independent. This was a change that was discussed with and supported by the External Auditor.
- 2.3 In addition, the finance team had implemented a new Financial Management System and incorporated a number of additional changes and measures designed to support the Faster Close regime from the 2017/18. These included the implementation of a CIPFA system to speed up the process of reconciliation and production of the accounts.
- 2.4 This all resulted in a delay to the completion of the accounts and the subsequent difficulty in drawing conclusions on the “form” of contracts for the provision of leisure services has meant significant additional delays in concluding the Accounts and

enabling the External Auditor to finalise their work.

3.0 Report Details

2016/17 Closedown

- 3.1 The following paragraphs set out in detail the principal issues that have been faced and the actions taken to address them as well as a commentary on next year's closedown process and what has already been put in place to ensure that the issues don't recur and the Accounts are closed down on time.
- 3.2 The Council entered into a contract (service operating agreement) relating to its leisure centre assets, with Parkwood Leisure (originally with Cherwell Leisure Ltd), in 2008.
- 3.3 The contract was treated within the Accounts as a lease over the assets to Cherwell Leisure Ltd / Parkwood Leisure Ltd. The Council has since 2008 disregarded the Project Agreement in valuing and accounting for its leisure assets. This has been approved within the Councils Statement of Accounts by the External Auditors each year since 2008/09 (8 years).
- 3.4 The Council's new valuers, Montagu Evans, discounted asset values by more than the Councils internal valuer on the basis of the contracts (leases) in place between the Council and Parkwood Leisure Ltd. This created the significant variances, which were queried by the External Auditor.
- 3.5 In raising their concerns the External Auditors first focussed on whether the contract was a PFI arrangement. The contracts are all entitled as "Design, Build, Operate and Maintain" arrangements. Whilst the Council was always confident that the arrangements were not PFI it took a significant amount of time and in the end a legal opinion to satisfy the External Auditors that the arrangements were not PFI.
- 3.6 Whilst establishing that the arrangement was not a PFI did take us forward, it didn't confirm that the approach taken in prior years was either right or not. The Council after discussing with the Auditor prepared a "Technical Accounting Paper" to try and justify the approach it had taken.
- 3.7 At this stage in late November a number of additional parties were involved including an Estates team and Technical team from the External Auditor. This was to ratify the technical paper and put us in a position to finalise the accounts.
- 3.8 The issue is a complex one and after advice from the Auditors resulted in the Council having to test the contractual arrangements via International Accounting Standards. The communications to get to a finalised treatment has taken much longer than it should have done. The Auditors Technical team are reviewing the paper and it will be subject to testing during audit.
- 3.9 The tests undertaken under the International Financial Reporting Interpretations Committee (IFRIC) 12 result in a change in "substance" for the leisure contracts. The conclusion agreed is that they are Service Concession arrangements and should be valued and accounted for as such.

- 3.10 This results in significant changes in the asset valuations relating to both 2016/17 and 2017/18. This work has now been completed by Montagu Evans and Officers have corrected the asset values for 2016/17 and restated the asset values for 2015/16.
- 3.11 The revised asset valuations have a significant impact on the statement of accounts, requiring changes to all of the primary statements and to a number of notes to the statements, the work required to restate the accounts is substantial.
- 3.12 At the time of writing the Statement of Accounts the final 15/16 values were being completed once finalised there is still a significant amount of work for the External Auditors to complete on the changes made to the Accounts. Given the material nature of the changes the External Auditor will not be in a position to have substantially completed their work and the Committee will not be in a position to approve the Accounts at this meeting.
- 3.13 The Accounts will therefore be approved at the next meeting on 14th March.
- 3.14 It is still expected that the Council will receive an unqualified opinion on the 2016/17 financial statements and a modified value for money opinion which reflects the causes of the delay in finalising the statement of accounts.

2017/18 Closedown

- 3.15 The circumstances surrounding closure have been far from ideal and there are significant learning points for all parties involved. Discussions have been held with both the External Auditors and External Valuers and changes have already been made to the team that will deliver the 2017/18 accounts.
- 3.16 There have been a number of other contributory factors, which include poor communications, management and technical understanding. These have been compounded by a lack of capacity to deal with the scale of the issues presented.
- 3.17 The management restructure starts to address the issue with a permanent Assistant Director post at a salary to attract appropriately qualified candidates. In the short term an Interim Assistant Director will help support the team through the budget process.
- 3.18 The proposal for next year's Accounts process is to run it as a project. It will be led by an officer with no other responsibilities. We have already appointed the lead officer who has a track record of delivering closedown projects over the last five years. They have already put a timetable in place and have made good progress on agreeing the methodology for next year.
- 3.19 The major issue with the 2016/17 accounts has been agreeing asset valuations and the catalyst for the issue was a change in both Valuer and Values (the accounts for the last 8 years had been signed off on the old values). We are retaining Montagu Evans as the valuer for 2017/18 and therefore expect the continuity that brings to ensure the same issues do not recur.
- 3.20 We have made significant progress in establishing the new finance system and the CIPFA closedown system is now fully operational. It is expected to reduce the time in processing and producing the Statements for the 2017/18 closedown.

4.0 Conclusion and Reasons for Recommendations

- 4.1 The Accounts, Audit and Risk Committee is asked to note progress in finalising the Statement of Accounts for 2016/17 and progress on the external audit of the statement of accounts.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: Members may wish to seek further information in relation to this report and both officers and representatives of the external auditor will be present at the meeting to provide this.

7.0 Implications

Financial and Resource Implications

- 7.1 The additional audit work required will result in additional costs; these have yet to be quantified. There have been capacity and management issues with the finance team and these are addressed in detail in the report.

Comments checked by:

Sanjay Sharma, Interim Head of Finance, 01295 221564

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Legal Implications

- 7.2 There are no direct legal implications or penalties arising from publishing the Accounts late, however if this were to be a recurring issue it is likely to attract Government attention.

Comments checked by:

James Doble – Democratic and Elections Manager and Monitoring Officer

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Risk Management Implications

- 7.3 The Statement of Accounts is one of the key documents that present a well-run and soundly managed organisation. Not having them in place in a timely manner presents a risk to this.

Comments checked by:

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Equality and Diversity

7.4 There are no equality and diversity issues arising directly from this report

Comments checked by:

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8.0 Decision Information

Wards Affected

All wards are affected

Links to Corporate Plan and Policy Framework

All corporate plan themes.

Lead Councillor

Councillor Tony Ilott – Lead Member for Financial Management.

Document Information

Appendix No	Title
None	
Background Papers	
None	
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